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**HF 2468** – Adoption Tax Credit (LSB 6200HV)  
Analyst: Jeff Robinson (Phone: (515) 281-4614) ([jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov))  
Fiscal Note Version – New

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### **Description**

**House File 2468** provides an individual income tax credit equal to the amount of eligible adoption expenses paid by a taxpayer in connection with the adoption of a child. The credit is limited to \$2,500 per adoption. Any credit in excess of the taxpayer's liability is refundable or may be carried forward as a payment for the next tax year's liability at the election of the taxpayer. This Bill applies retroactively to January 1, 2014 (tax year 2014).

### **Background**

Under current law, Iowa taxpayers may claim an itemized deduction for eligible adoption expenses that exceed 3.0% of the taxpayer's net income. This Bill will allow a credit of up to \$2,500 per adoption, but claiming the credit will disallow the itemized deduction for the same expense dollars.

### **Assumptions**

- Based on 2012 and 2013 federal adoption tax credits claimed by Iowa taxpayers, and adjusting for differences between coverage and refundability between the federal credit and the proposed Iowa credit, it is estimated that an average of 410 households will claim the new tax credit each year and the average decrease in income tax liability per household claiming the credit will be \$2,056 (value of the refundable tax credit, less the implications of reduced itemized deductions).
- The local option income surtax for schools is based on a taxpayer's State income tax liability, prior to any reduction due to refundable tax credits. This Bill will reduce itemized deductions and increase State tax liability prior to refundable tax credits, so this Bill will increase revenue raised by local option income surtax for schools. Since the new tax credit is a refundable credit, that portion of the tax change does not impact the surtax calculation.

### **Fiscal Impact**

The new refundable income tax credit for eligible adoption expenses created in this Bill is projected to reduce net General Fund revenue by \$843,000, beginning in FY 2015. The change will also increase the statewide yield of the local option income surtax for schools by \$30,000 per year.

### **Sources**

Federal adoption tax credit claims (tax years 2012 & 2013)  
Iowa Department of Revenue

/s/ Holly M. Lyons

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April 14, 2014